

STATE OF ARIZONA

## Joint Legislative Budget Committee

STATE  
SENATE

ROBERT "BOB" BURNS  
CHAIRMAN 2004  
MARK ANDERSON  
MARSHA ARZBERGER  
TIMOTHY S. BEE  
ROBERT CANNELL, M.D.  
JACK W. HARPER  
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HOUSE OF  
REPRESENTATIVES

RUSSELL K. PEARCE  
CHAIRMAN 2003  
ANDY BIGGS  
MEG BURTON CAHILL  
EDDIE FARNSWORTH  
LINDA GRAY  
STEVE HUFFMAN  
JOHN HUPPENTHAL  
LINDA J. LOPEZ

### JOINT LEGISLATIVE BUDGET COMMITTEE

Wednesday, November 17, 2004

9:30 a.m.

Senate Appropriations Room 109

### MEETING NOTICE

- Call to Order
- [Approval of Minutes of October 14, 2004.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14 and Update on Prior Settlements.
- 1. ARIZONA DEPARTMENT OF ADMINISTRATION
  - A. [Consider Approval of Mileage Reimbursement for State Travel by Motor Vehicle and Aircraft.](#)
  - B. [Consider Approval of Maximum Lodging Reimbursement Rates.](#)
- 2. [STATE COMPENSATION FUND - Consider Approval of Calendar Year 2005 and 2006 Budgets.](#)
- 3. [DEPARTMENT OF PUBLIC SAFETY - Quarterly Review of the Arizona Public Safety Communications Advisory Commission.](#)
- 4. [DEPARTMENT OF REVENUE - Report on Credit Card Payments.](#)
- 5. [ARIZONA TOURISM AND SPORTS AUTHORITY - Report on Activities.](#)
- 6. [GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Report on Federal Revenue Maximization Initiative.](#)

7. ATTORNEY GENERAL - DEPARTMENT OF LAW - Report on New Staffing of Child Protective Services Attorneys.
8. ARIZONA STATE RETIREMENT SYSTEM - Report on Contribution Rates.

The Chairman reserves the right to set the order of the agenda.  
11/8/04

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### MINUTES OF THE MEETING

#### JOINT LEGISLATIVE BUDGET COMMITTEE

October 14, 2004

The Chairman called the meeting to order at 9:43 a.m., Thursday, September 21, 2004, in Senate Appropriations Room 109. The following were present:

Members:	Senator Burns, Chairman	Representative Pearce, Vice-Chairman
	Senator Anderson	Representative Gray
	Senator Bee	Representative Huffman
	Senator Harper	Representative Huppenthal
	Senator Martin	Representative Lopez
	Senator Rios	
Absent:	Senator Arzberger	Representative Biggs
	Senator Cannell	Representative Burton Cahill
		Representative Farnsworth

#### APPROVAL OF MINUTES

Senator Burns moved that the Committee approve the minutes of September 21, 2004. The motion carried.

#### ADOPTION OF REVISED COMMITTEE RULES AND REGULATIONS

Mr. Brad Regens, Assistant Director, JLBC, said this item is the adoption of the Committee rules and regulations. Rule 7 adds a new requirement for an annual review of the JLBC Staff Director's performance by the Committee. It would require the full Committee, rather than the Chairman and Vice-Chairman, to set the Director's salary.

Senator Burns said he announced a few months ago that he wanted to pursue this as he did not feel comfortable having the Chairman and Vice-Chairman making the decision. He said the plan is to get a subcommittee together to look at salaries of like positions and come back to the Committee with a recommendation before the end of the year.

Senator Rios expressed his support for the proposed change. It is what they do in the Joint Legislative Audit Committee the Auditor General and other committees.

Representative Pearce moved that the Committee approve the revised Committee Rules and Regulations as follows:

#### Rule 7

- add a new requirement for an annual review of the JLBC Staff Director's performance by the Committee.
- require the full Committee, rather than the Chairman and Vice-Chairman, to set the Director's salary.
- permit the Chairman to name a subcommittee to make recommendations on the Director's salary.

**Rule 8**

- *revise the timeline for agencies to submit a request to appear on the JLBC agenda. A request must now be made 2 weeks prior to the meeting. The revision would require agencies to make the request 3 weeks in advance of the meeting. The rules would retain the existing language that allows the Chairman to place an item on the agenda if an agency has not met the submission deadline.*

The motion carried.

**ARIZONA BOARD OF REGENTS (ABOR) – Review of FY 2005 Tuition Revenues and Report on University Pay Plan.**

Mr. Lorenzo Martinez, Assistant Director, said this item is for Committee review of the expenditure plan for the universities relative to the additional tuition being generated above appropriated levels. Also, there are some additional reports pertaining to tuition and fees, as well as information related to distribution of salary money.

Representative Gray asked who will be getting salary increases.

Mr. Martinez said that for NAU with a total of 2,371 FTEs, 1,605.7 FTEs will receive an adjustment under the plan. As shown in the table for the other universities, it appears that not all university employees will be receiving adjustments according to the pay plans that have been submitted.

Representative Gray asked if the tuition increase is being used for scholarship and how is it being distributed.

Ms. M. J. McMahon, Executive Vice President, Northern Arizona University, said they are using tuition dollars for increases in the number of students that are supported through scholarship dollars. With the increase in enrollments this year they have more students that are being supported by tuition dollars. The other increases in tuition went for student services. They have increased their advising services, especially for undergraduate and new students.

Senator Burns said the Committee had some debate last session about alumni associations using General Fund money. Consequently, there was a footnote added to the budget to prevent that from happening in the future. He asked if the NAU Alumni Association was still using General Fund monies.

Ms. McMahon said she was not aware that they were but would get clarification for the Committee on that item.

Senator Burns said he also wanted to know if universities used tuition to backfill funding for the associations.

Mr. Greg Fahey, representing the University of Arizona (UofA), said what the UofA is doing at this time is they have given a \$1,000 increase to the classified staff, effective July 1, 2004. They have held back on faculty and other appointed personnel because they have been assessing whether they will have the ability to augment the money that the Legislature appropriated with any additional sums and see if they can make the package any richer. The decision should be made soon and they will get back to the Committee with what is decided.

Senator Burns asked if the UofA Alumni Association was using General Funds and if they were, has there been a backfill proposed.

Mr. Fahey said they were using some General Fund monies in the past but have terminated that. He said he would confer with their budget personnel as to exactly what they are doing now.

Senator Burns asked if tuition money was being used by the Alumni Association.

Mr. Fahey said he would have to get back to the Committee with that information.

Representative Pearce said essentially the tuition increase is split between the operating budget, financial aid, and debt service. He asked what criteria is used to determine how much each category gets.

Mr. Fahey said that students come first in the way of financial aid and scholarships. Next would be student related items, such as hiring people for teaching and advising. He indicated he would have to get the information on the further criteria and get back to the Committee.

Representative Pearce said what he would like to see, probably from the Arizona Board of Regents, a breakdown as to how that budget is spent on academics versus non-academics. He stated that it seems that the more money we spend on higher education the less goes toward academics.

Mr. Fahey said they would supply the Committee with that information.

Representative Gray asked how many new students had been added into the scholarship group because of the tuition money and also what amount of increase was added to those students who are receiving scholarships because of the tuition increase.

Mr. Fahey said they would also provide that information to the Committee.

*Representative Pearce moved that the Committee give a favorable review to the Arizona Board of Regents expenditure plan for the tuition amounts above the previously appropriated amounts. The motion carried.*

#### **ARIZONA STATE PARKS BOARD – Review of Additional FY 2005 Reservation Surcharge Fund Expenditures.**

Mr. Tim Sweeney, JLBC Staff, said that this item is a review of additional Reservation Surcharge Fund expenditures above the FY 2005 appropriation.

Representative Gray asked if the \$3 per ticket charge for advanced reservations on-line saves employee time.

Mr. Jay Ziemann, Assistant Director, State Parks Board, said that at this time visitors cannot make reservations on-line at Kartchner Caverns. They are made through by phone to the park and agents take the information and send materials out. They hope to be on-line in the future, and are working with the Government Information Technology Agency (GITA) to be able to do on-line tickets.

Representative Gray wants to know from GITA why there is a delay in getting Parks on-line.

*Representative Pearce moved that the Committee give a favorable to the State Parks request to increase the FY 2005 expenditures from the Reservation Surcharge Fund to \$460,300. The motion carried.*

#### **ARIZONA DEPARTMENT OF TRANSPORTATION (ADOT) – Review of Ports of Entry Report.**

Mr. Bob Hull, JLBC Staff, said this item is a report on staffing at the ports of entry. ADOT has not had time to fill any of the 12 additional positions that were appropriated for FY 2005 at the ports.

Senator Anderson asked why the positions have not yet been filled.

Mr. Ric Athey, Assistant Division Director for Enforcement, Motor Vehicle Division, said the reason is because they are in the process of recruiting for the 12 positions. He stated that it is difficult to find qualified people, who must be Arizona P.O.S.T. certified. They have to go through background investigations and meet P.O.S.T. standards.

Senator Burns asked if he had an estimate as to when they might be successful in filling the positions.

Mr. Athey said with active recruiting, and the academy process, it takes 7 to 8 months to get these people on board and functioning. The next academy is in March or April of 2005.

Representative Pearce asked how many of the ports will be fully functioning once these positions are filled.

Mr. Athey said these are the interstate ports and once the positions are filled the ports will be able to operate and function 24/7.

Representative Pearce asked where MVD is in the process of treating the stationary ports as mobile ports, which he believes are much more effective. He said it was not in the 5-year plan to move away from stationary ports and move to mobile ports.

Mr. Athey said that they have 3 active mobile ports: southern, central and northern regions. Along with partnering with local agencies, DPS and Sheriff's offices, they are able to do mobile details. As of right now they still have those 3 active enforcement units participating where they know the industry is bypassing ports.

Senator Anderson asked if there is a report that shows if the results of these ports is effective.

Mr. Athey said that they do have reports that come in on narcotics found at some of the state ports. They are turned over to the local law enforcement or DPS. As for the agriculture checks, the Department of Agriculture would have reports on that. MVD is only responsible for safety issues, size and weight. Some ports are operated 24 hours a day by Department of Agriculture staff, not by MVD staff.

Senator Burns asked what the penalty is for bypassing a port.

Mr. Athey said he did not have that information but would get it for the Committee.

*Representative Pearce moved that the Committee give a favorable review of the report with the provision that ADOT report to the Committee by August 1, 2005, how many of the 12 new FTE Positions have been filled and at which ports and the report should include the following information for each fixed port of entry in FY 2005:*

- *Total number of authorized and filled FTE Positions.*
- *Hours of operation before and after filling these positions.*
- *Total number of hours open and closed.*
- *Number of trucks processed manually, by prepass and waved through.*
- *Amount of revenue collected.*

The motion carried.

#### **DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS – Report on Homeland Security.**

Mr. Brad Regens, Assistant Director, JLBC, said this item is a report on Homeland Security monies. The General Appropriation Act requires the Governor's Office of Homeland Security to report to this Committee on FY 2004 and FY 2005 grants received by the state.

Senator Harper asked if there is a tax on nuclear energy that goes into the Nuclear Security Fund and if every couple of years money is transferred out of the fund.

Mr. Regens said there is a Nuclear Emergency Management Office and a Radiation Regulatory Agency that essentially funds the oversight of the Palo Verde Nuclear facility. It is a self-funding enterprise where fees are assessed and collected on Palo Verde and essentially given to the 2 state agencies to oversee regulation.

Senator Harper asked if there is an excess in the fund so that some of the money could be used for Homeland Security.

Mr. Regens said the assessment is exactly to the amount that the agency will receive for regulatory purposes. The amount that Palo Verde pays does not exceed what the 2 state agencies receive for their work.

Representative Huffman asked how much of this money is spent on one-time things like equipment versus on-going programs. Just looking at the interaction between state and Federal Funds, what proportion are Federal Funds in relation to our total Homeland Security budget, and what potential obligations we are setting ourselves up for in the future in the absence of that federal money or as a result of a change in the federal formulas.

Mr. Regens said that will be part of the discussion as the Committee receives additional information.

Senator Burns asked when the model will be up and running.

Mr. Frank Navarrette, Director, Office of Homeland Security for the State of Arizona, noted that he also manages the Division of Emergency Management. He said the regionalization, which is a reduction of the State of Arizona from 15 counties to 5 regions by consolidating some of the counties, is in place. The remaining piece is the appointment of the advisory councils, which are going to be the Governor's Councils for each of the regions. That is in the process of being finalized. Once complete, all components of each region will be assessed to determine what their needs are and allocate funds by region as opposed to by county. They plan to finalize that by mid to late November.

Using a handout (Attachment 1), Mr. Navarrette explained actual expenditures of the money and obligated money, which means that a contract has been let, but for whatever reason the vendor cannot supply the equipment or it is still going through the process.

Senator Burns said that when they go to the regional model, he asked if it would be more efficient than what is in place and would it improve operations.

Mr. Navarrette said that prior to the regional process, the money was allocated based on a formula. The allocation would go to the counties, and the counties would then reallocate it to the local sites. In some counties the Board of Supervisors did it, in others they had a group of people that included first responders that would allocate it. There was no standard across the board.

We now have a planner for each region, advisory councils which are comprised of first responders, and we have instituted a centralized purchasing program where we will buy items for the regions, our office will handle all the federal paperwork, eliminating a lot of problems for the regions.

Senator Burns noted that this is a critical issue and it would be beneficial to the Committee to know ahead of the curve, what is going on with Homeland Security. As recommended by JLBC Staff he would like the Homeland Security Office to report to the Committee on a monthly basis.

Mr. Navarrette said he would provide a report in writing as well as a verbal report.

Representative Pearce said there are a couple of historical problems, and that is the inability of governing boards to purchase things up front and then be reimbursed. He asked if the Homeland Security Office is working with agencies on that problem so there are no delays in reimbursements.

Mr. Navarrette said they are working with agencies on the regionalization plan.

Representative Pearce requested a comprehensive list of the total amount of dollars that are available to the state and/or local agencies, including grants. As the Legislature appropriates money it is important to know what money is available.

Mr. Navarrette said he would provide that to the Committee. He also said he would be available anytime to brief the Committee on the regionalization plan.

#### **ARIZONA DEPARTMENT OF CORRECTIONS – Report on New Beds and Projects**

Mr. Brad Regens, Assistant Director, JLBC, said this item is for information only and no Committee action is required. He noted that JLBC Staff has been working with the department to update the Committee on the status of various beds that were authorized by the Legislature during the Second Special Session, as well as a couple of projects that the department has been working on as a result of legislation enacted last session.

Representative Pearce said he thought there was an agreement that VOITIS monies would not be used for private beds.

Mr. Regens said there has been a lot of discussion on the use of VOITIS monies. He believes that the department's position is that they would not be used in the Mohave and Kingman facility. The Legislature provided the department with flexibility in terms of the federal monies, and they are using some of those monies for the new private beds.

Representative Pearce said it concerns him that those monies are being used outside the way they were meant to be used. He said he would get together with JLBC Staff to discuss the appropriate use of VOITIS money.

Mr. Regens said the final issue is a community accountability pilot program.

Representative Pearce asked why there was a delay in getting the RFP out.

Mr. Mike Smarik, Support Services Division Director, DOC, said they are in final negotiations with the 2 providers on the 1,000 private beds. In addition, they are working with the Department of Justice in completing an environmental assessment that is required if you are using federal money for the payment of the per diem of those beds. The total timeframe for that process is around the beginning of January.

Senator Burns asked what the bed shortage is at this time.

Mr. Smarik said approximately a 2,700 deficit.

Senator Burns asked what the schedule is for the inmate stores.

Mr. Smarik said the RFP is out and site visits are scheduled for October 26 through November 8. They have a pre-proposal conference scheduled for November 15 where they look at the RFP and site and can ask questions and get clarification. Proposals are due to the department on November 29. They plan to make an award sometime around mid-January.

Representative Pearce asked if the agency does compete on the RFP, are they going to fully load it so there are no hidden costs. He also asked how many people are currently working in stores and commissaries that will be freed up to work in other places to facilitate the department with staffing issues.

Mr. Smarik said they would be looking at the total package in the RFP. He said he did not know how many people would be able to be deployed into a security type function but at least 1 per store. He said the community accountability pilot program RFP is out and the proposals are due November 12. The award will be made sometime in December.

Mr. Regens said that although this item is for information only, the Committee may want to request that as part of the monthly reports on the beds, an update on the status of privatizing the inmates stores and on starting the community accountability program be included.

Mr. Robert Murillo, Manufacturing Small Business Owner, said he wanted to go on record, regarding inmate stores, to tell the Committee how this will affect small businesses. In today's bidding process the state looks at price, accountability, deliverability, and quality of product. Vendors cannot do anything other than those 4 items to bid on products for the state. When you go to privatization the level playing field goes away. Now the biggest company can wine and dine and do whatever necessary to get that contract. The state will not get the best price when you privatize. We need to support local businesses and grow the Arizona economy.

Senator Burns and Representative Pearce asked if Mr. Murillo would put something in writing pointing out some of the weaknesses in the process.

Mr. Murillo said he would provide that to the Committee.

Mr. Doug Mahoney, Representative for a Small Supply Company, also opposed privatizing the inmate stores.

#### **DEPARTMENT OF ECONOMIC SECURITY – Report on Child Protective Services (CPS) Issues.**

Ms. Kim Hohman, JLBC Staff, said this item is a Staff summary of the CPS Financial and Program Accountability report required by the Special Session legislation passed last fall. The Legislature appropriated \$16.6 million for new CPS staff and other CPS issues. As part of that legislation, DES is required to submit a semi-annual report on a variety of CPS performance measures.



Senator Anderson said one of the issues that might affect some of these numbers is the new law in place regarding jury trials. He asked if anyone was tracking the number of jury trials and have the requests resulted in additional costs to the department.

Mr. David Longo, Financial Business Operations Administrator, DES, said he did not have that information but would provide it to the Committee.

Representative Pearce asked what progress has been made in developing Arizona-specific caseload standards.

Mr. Longo said that the department has worked with the National Resource Center in regards to establishing caseload standards for investigative workers. The department received a report from the Center and is analyzing it and will finalize the Arizona Standards by December 31. By January 1, we will have an Arizona Standard for investigative workers.

Representative Pearce asked if DES expects caseloads to rise or fall and why.

Mr. Longo stated that the agency is actively working on redesigning some of the service delivery. They are working on increasing services to in-home supports. With these changes, they expect to see their caseloads decline in the out-of-home populations. This will be accomplished over a period of time.

Senator Rios asked about the status of CPS investigators. During the Special Session the Legislature approved a 10% pay increase for investigators to try to ensure that particular group does not have such a high turnover rate.

Mr. Longo said the 10% investigator stipend was for any worker who had 3 years of CPS experience and investigated 6 reports of abuse and neglect. It was implemented in June 2004 and workers who meet the performance measure receive the stipend.

Senator Rios said he is getting e-mails from CPS workers that report they are not getting the 10% stipend.

Mr. Longo asked for the e-mails and said he would provide clarification to Senator Rios once he has reviewed them.

Representative Lopez said that in the JLBC Memo it appears that the staffing need decreased by 16 positions as a result of a decrease of the number of investigations. She asked if that is based on a one-month timeframe or over a period of time.

Mr. Longo said that there are summary pages in the DES portion which follow the JLBC memo that show January through June by the caseload for investigators, out-of-home case managers and in-home case managers. If you compare the investigative section of each of those pages you will see that due to the number of reports received in the month of January they would have needed 241 staff to do those investigations. In the month of June the report indicates the department would have needed 201 staff. The month of June historically is a low month.

Representative Huppenthal said that in the Special Session they had the published 2002 death rates and he asked if the 2003 death rates are published yet.

Mr. Longo said he would find out if that has been released yet.

Representative Huppenthal said, in talking to DHS, there was a discrepancy between the child fatality death rate reports and the death rate reports going to the National Child Abuse and Neglect data system and he requested that data for 2003 so he could see the difference between the 2 reports.

Mr. Longo said he would provide that to the Committee.

**JLBC STAFF/ARIZONA STATE SCHOOLS FOR THE DEAF AND THE BLIND (ASDB) – Report on Additional Classroom Site Fund Monies.**

Mr. Eric Jorgensen, JLBC Staff, said this item is a report on the ASDB's plan to spend a \$1.2 million increase from the Classroom Site Fund allocation.

Senator Anderson asked how many total students they have and what they are doing to reduce class size.

Mr. Jorgensen responded that they are hiring a number of new teachers.

Representative Huppenthal asked if performance pay is in the form of a bonus.

Mr. Jorgensen said it is only given to teachers after they meet the performance standards.

Representative Huppenthal said there is something systematically wrong at ASDB. He has made numerous trips down there to talk to the teachers and they are very unsettled and as well, there has been turnover in superintendents. We need to get to the heart of the problem.

Mr. Hal Hoff, Assistant Superintendent of Business Services, ASDB, said Proposition 301 will allow them to address classroom size issues.

Representative Pearce asked if all ASDB teachers qualify for performance pay. He also asked if the Protege Mentor program require teachers to work extra hours to qualify for performance bonuses.

Mr. Hoff said that is correct. The scores from parents typically range from 92% to 94% on the criteria that is used to measure their satisfaction with the school. With regards to Protege Mentor bonus pay it does require them to work extra hours.

Mr. Hoff said, in response to Representative Pearce, that the ASDB visually impaired students in both Phoenix and Tucson scored above the minimums on the AIMS test. There were not enough hearing impaired students in the particular grade levels to determine AIMS scores. He said they have integrated a number of AIMS studies within the regular school curriculum.

Representative Lopez said that it seems that even with Proposition 301 monies for teachers, they are still behind in terms of trying to attract and retain teachers. She met with teachers from the Phoenix campus and they reported that one of the biggest problems is that ASDB teachers are not under contract. They can be lured away in the midst of the school year.

Mr. Hoff said that is correct. There are several examples where teachers were about to be hired but ASDB was not able to offer a competitive salary. As a state agency they cannot enter into the same kind of contract that the school districts enjoy.

Representative Huppenthal noted that Mr. Hoff listed the percentage of parents that were satisfied with the school system. He requested information on the number of parents that listed excellent performance. He believes satisfactory is a low standard of service. He also suggested they do a teacher/job satisfaction measure once or twice a year. It would possibly include suggestions on how to improve ASDB.

Representative Gray asked why they do not have teacher contracts, and also why Tucson had the only residential campus.

Mr. Hoff said that it is in state statute that they are not allowed to enter into teacher contracts. He said that they have spoken with John Arnold at the School Facilities Board and have started discussions with school districts so they can look at expanding their residential programs in Phoenix .

## **DEPARTMENT OF JUVENILE CORRECTIONS (DJC) – Report on Federal Audit Issues.**

Ms. Kim Chelberg, JLBC Staff, said the Federal Audit was conducted in 2003 as a result of 3 youth suicides. The agency recently reached an agreement with the Department of Justice on September 15. This will be valid for 3 years and requires the reforms listed in the JLBC Agenda book memo.

Representative Huppenthal said one of the ways to find out if the experiment in charter schools is working or not is to look at juvenile crime rates. He would like to have information or data as to why the juvenile crime rates have gone down in Arizona and whether charter schools play a part in that.

Ms. Debra Peterson, Assistant Director of Support Services, DJC, said the decline in the juvenile population has been steadily decreasing over the last 2 to 3 years. They do not know if it is a result of the Civil Rights of Institutionalized Persons Act (CRIPA) report and/or possibly there is a reluctance of judges to commit to the state. However, she thinks that is changing because data over the last month shows that intake numbers are going up again.

Senator Burns asked if the audit focuses on various staffing ratios and is DJC able to meet those and how do they compare to other states.

Ms. Peterson said that currently with the staffing ratio, they are funded at the 2-3-1 ratio. In looking at other states it seems like a 2-3-2 staffing ratio is required, specifically for the graveyard shift.

Senator Burns asked if DJC had been able to take advantage of the savings with the lowering of the juvenile crime population.

Ms. Peterson said they closed the parole violator center at Sunrise Mountain School and moved those youths to Adobe. The staff was absorbed so there were no layoffs. They are going to close the unit at Black Canyon School, which is for girls, however, the intake numbers are going up for the boys population. Before they close another unit they are going to look at the data for a couple of months.

Senator Burns said the suicides and abuse prompted the audit. DJC is now required to have increases in special education and medical care. He asked how do those connect.

Ms. Peterson said that when the Department of Justice came in they were looking at overall conditions. Currently they have about 45% youth qualified for special education and in the past they have not been meeting those special education requirements which became very visible on the audit. Part of what they would be requesting is the teaching ratios to per student would actually decrease.

Ms. Peterson said, in response to Representative Pearce, that there are no dollar figures in the agreement that would require the Legislature to give an appropriation. She says the agreement only states adequate or reasonable.

Senator Anderson asked if they keep track of the use of psychotropic drugs for the kids at the facilities. Over the summer the FDA came out with a report that said there is a serious problem of suicides created by use of these medications.

Ms. Peterson said they do track that. One of the first things they do with a new juvenile is an assessment to look at their suicide risks and what drugs they are on.

Senator Burns asked if she had any problems with supplying the additional information that was recommend by JLBC Staff.

Ms. Peterson said she agreed completely with the request.

## **DEPARTMENT OF HEALTH SERVICES/AHCCCS – Report on Health Crisis Fund.**

Ms. Beth Kohler, JLBC Staff, said this item is an update on an issue that was heard at the August JLBC meeting.

Representative Pearce asked when they expect to revert the \$230,000 on the prescription drug cards.

Ms. Kohler said that the letter from the Governor's Office stated it would be after the AG's settlement monies were expended and she was not sure when that would be.

Senator Martin asked if a new program had ever been started using settlement monies.

Ms. Kohler said it is not creating a new program. The federal government passed the Medicare Discount Program starting in 2006. In the interim, they are offering discount cards so beneficiaries can save some money on the prescription drugs and they are also subsidizing low income beneficiary prescription drugs. What this is doing is advertising to Medicare beneficiaries to get them information about the new program and helping them understand their options.

Senator Martin asked if they were providing information on the CoppeRx card.

Ms. Kohler said she believes it does include the CoppeRx and federal cards.

Senator Martin asked for a copy of all their outreach materials, old and new, whatever they have that is provided to beneficiaries. Also, he wanted to know how much they spent on each piece. Senator Martin said if it would help he could make an official open records request, they do have a duty to promptly respond.

Ms. Kohler said that the Chairman did ask the Governor's Office for that information, as of this point it had not yet been sent out, but they do plan to provide that. Ms. Kohler said she would follow-up on that.

Senator Harper said if they do not need the \$800,000 it should be used on Homeland Defense.

Representative Pearce said we continually have backdoor appropriations or misuse of dollars. We need to stop that from happening. The Governor's Office is to carry out policy not to set policy.

Mr. Anthony Rodgers, Director, AHCCCS, used a handout (Attachment 2) to help clarify how they spend their dollars in the Healthcare Group and where the money is going. Mr. Rodgers said that last year when they approached the Legislature and asked for an additional appropriation, they anticipated that a portion of that would go into marketing and sales. In the \$3.2 million they estimated about \$300,000 for marketing materials.

Senator Martin asked, in reference to the Medco settlement monies on the CoppeRx card, that because they are able to substitute the Medco settlement money would the money go into the General Fund.

Mr. Rodgers said that the settlement is specific as to how the funds will be used in AHCCCS. The reason we are having discussions is whether the use of that money is for outreach and if the money has to come back to AHCCCS.

Senator Martin said the money comes back to AHCCCS, which is funded by taxpayer money. He asked if the Medco suit was due to a violation or failure to act properly in relation to the CoppeRx card or was it due to improper actions on Medco's part long before the CoppeRx card was in existence.

Mr. Rodgers said the 2 are not related. The Medco settlement is regarding the activities of Medco. The way the settlement is written is that those monies will come back and be used by AHCCCS and will not revert to the General Fund.

Senator Martin said the Legislature may want to look into changing the statutes or laws because this is a real problem. If an agency enters into a contract and there is a settlement associated with that contract, the revenues from that settlement is used for non-appropriated activities within that agency without legislative oversight.

Mr. Regens said that it is his recollection that the Attorney General pursues consumer fraud cases. When they reach an agreement, most of the time they have to direct payments to identify consumers. Often what they do is provide the AG's Office with an allocation of settlement payment that says "use on behalf of Arizonans in the following categories...".

Senator Martin said if the Legislature does not address this problem they are going to have a bigger problem with the Attorney General's Office directing more expenditures in the state than anyone else. He asked how long the Medco money and outreach efforts are going to last based on the money that Medco gives them. He asked how it will be funded once the Medco money is gone.

Mr. Rodgers said that the Medco money is a one-time reimbursement.

Senator Martin asked Mr. Rodgers to take him through the decision making process. Senator Martin said he believes this was being done to eliminate the confusion that exists associated with all these cards and as a result, people would not know what type of benefits there are. He said he believed the Health Care Crisis Fund was available for people in dangers, such as West Nile Virus. Confusion in the market place is urgent but not a crisis.

Mr. Rodgers said the seniors who are confused about the discount cards are very vulnerable.

Senator Martin asked for copies of the e-mails, communications, other things available as they were in the decision-making phase. The Legislature was still in session at the time these decisions were being made, and this is the type of thing that would have been easy for them to add as a budget line item. They were using money for marketing at the same time the state had Homeland Security issues and West Nile Virus.

Representative Pearce expressed concerns with the Attorney General negotiating with the courts and both of them setting policy and directing money, absolutely unconstitutional. The Legislature appropriated \$1.4 million to Healthcare Group and you take \$300,000 to spend on marketing and \$1.1 million in non-marketing. What will these monies be spent on.

Mr. Rodgers said that to run the Healthcare Group and do it so there are not significant problems for the small businesses, to be able to support them and it takes staff. They do this to save the state from having a huge burden from individuals who work in small businesses without insurance becoming Medicaid eligible. What they have been getting back from small businesses has been very positive. That is why they felt we needed to get the information out quickly.

Representative Pearce said his issue is why is the non-marketing area growing so much and what is the money being spent on. He said he would like Staff to get together with them to find out where all these expenses are.

Senator Harper said whether it is Medco money or the Health Crisis Fund we are still using the slush fund to subsidize the advertising for a company that got a no-bid contract. He believes that changing the plan violated the State's Procurement Code, however, the Governor's administration has a different opinion.

Chairman Burns adjourned the meeting at 1:00 p.m.

Respectfully submitted:

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Cheryl Kestner, Secretary

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Richard Stavneak, Director

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Senator Bob Burns, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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DATE: November 10, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Consider Approval of Mileage Reimbursement  
for State Travel by Motor Vehicle and Aircraft

**Request**

A.R.S. § 38-623.D requires the Arizona Department of Administration (ADOA) to set the rates of reimbursement for state travel by motor vehicle and by airplane, taking into consideration the amounts established by the United States Internal Revenue Service (IRS). The rates compensate state employees who use their own vehicles to travel on official state business. The statute also mandates Committee approval of any rate change.

ADOA requests Committee approval for an increase in the mileage reimbursement rates, from 34.5 cents per mile to 37.5 cents per mile for motor vehicles, and from 42.0 cents per mile to 99.5 cents per mile for aircraft. The proposed rates are consistent with federal reimbursement levels. If the Committee approves the suggested rates, ADOA asks that the adjustments become effective immediately.

**Recommendation**

The Committee has at least the following options:

- 1) Approve the rates as submitted. The various agencies of the state would have to absorb additional travel costs. ADOA estimates the annual fiscal impact of the changes on state agencies would be \$303,000 among all funds. Meanwhile, the state universities could not all isolate mileage expenditures, but they calculated a combined annual increase greater than \$149,000 from all funds.

Committee approval would not constitute an endorsement of additional appropriations to cover higher travel costs. Agencies may request funding increases through the regular budget process.

(Continued)

- 2) Request that ADOA explore the establishment of different motor vehicle rates, depending on the availability of state motor pool vehicles, when proposing future changes. For example, the federal government reimburses 37.5 cents per mile when a government vehicle is not available, but only 27 cents per mile when government-owned vehicles are available and an employee chooses not to use one. The impact of this proposal on the state motor pool and state expenditures would require further research.
- 3) Not approve the new rates. State employees would continue to absorb additional travel costs.

## **Analysis**

Annually, the federal government hires a specialized transportation-consulting firm to study nationwide travel market conditions. Factors considered include the average costs of depreciation, maintenance, repairs, fuel, and insurance. On January 1, 2004, the U.S. General Services Administration published the current travel reimbursement rates of 37.5 cents per mile for motor vehicles and 99.5 cents per mile for aircraft. These rates serve federal government internal reimbursement purposes and IRS tax purposes.

The IRS rates likely represent a conservative estimate of travel expenses. They are based on an average gasoline price from late 2003, \$1.53 per gallon. As of November 5, Arizona's average fuel price was \$2.10 per gallon, while the national average was \$2.01 per gallon. Additionally, ADOA has assessed that auto insurance rates in Arizona are above the national average. The most recent statistics published by the National Association of Insurance Commissioners reflect data from calendar year 2002 and rank Arizona 11<sup>th</sup> in the nation, up from 14<sup>th</sup> in calendar year 2001. Arizona's average annual car insurance premiums were more than \$110 above the national average in 2002.

At its February 2001 meeting, the Committee approved a motor vehicle mileage rate increase from 32.5 cents per mile to the current 34.5 cents per mile. ADOA requested another motor vehicle rate increase at the Committee's November 2002 meeting, hoping to raise the rate from 34.5 cents to 36.5 cents per mile. The Committee did not approve the change, due to concerns over the availability of funding. Meanwhile, the Committee approved the current aircraft mileage rate of 42.0 cents per mile in March 1995.

The current request of a motor vehicle rate change from 34.5 cents per mile to 37.5 cents per mile represents an 8.7% increase. ADOA asks that the increased reimbursement rate go into effect immediately upon Committee approval. Across state agencies, ADOA approximates that the new rates would have an annualized impact of \$66,000 on the General Fund and \$237,000 on all other appropriated and non-appropriated funds.

Although they are not mandated to do so, the state's public universities also use ADOA mileage reimbursement rates. Arizona State University reports that the motor vehicle rate change would increase yearly travel expenditures from all state funds by \$14,000 and from all non-appropriated funds by \$33,000. Meanwhile, Northern Arizona University estimates an annual impact of \$33,000 among state funds and \$69,000 among non-appropriated funds. The University of Arizona could not isolate mileage costs from other travel expenses. The ADOA and university calculations assume that miles traveled by employees would remain at FY 2004 levels.

No Arizona state or public university employees travel on official business using private aircraft. The ADOA Risk Management Division ceased providing insurance coverage for this transportation mode several years ago. Therefore, the air travel rate change would have no foreseeable fiscal impact at the state level. However, it is the policy of many of the state's political subdivisions to adopt the rates set by the Committee. Employees of those subdivisions using private aircraft on official business currently absorb a large share of their own travel costs.

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DATE: November 10, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Shelli Carol, Fiscal Analyst

SUBJECT: Arizona Department of Administration – Consider Approval of Maximum Lodging  
Reimbursement Rates

**Request**

A.R.S. § 38-624.C requires the Arizona Department of Administration (ADOA) to establish maximum amounts for lodging reimbursement, taking into consideration the amounts established by the federal government. The rates compensate state employees traveling on official state business. The statute requires Committee approval of any rate change.

ADOA proposes increasing the standard lodging rate, used for markets not explicitly listed, from \$55 to \$60 per day. The department also seeks overall decreases to in-state lodging rates and overall increases to out-of-state rates. If the Committee approves the suggested rates, ADOA asks that the adjustments become effective immediately.

**Recommendation**

The Committee has at least the following options:

- 1) Approve the rates as submitted. The requested rates are consistent with or below federal reimbursement levels. The various agencies of the state may have to absorb additional travel costs. Excluding consideration of the state public universities, ADOA believes the rate changes would have no significant annual fiscal impact. According to the department, many state agencies already use the suggested rates. Meanwhile, the universities anticipate a combined annual expenditure increase of approximately \$1.4 million from all funds.

Committee approval would not constitute an endorsement of additional appropriations to cover any higher travel costs. Agencies may request funding increases through the regular budget process.

- 2) Not approve the new rates. State employees may absorb additional travel costs.

(Continued)



## Analysis

At its November 2000 meeting, the Committee approved the current lodging reimbursement schedule. ADOA made another lodging rate increase request at the Committee's November 2002 meeting. The Committee did not approve those changes due to concerns over the availability of funding.

Annually, the federal government conducts a national cost survey of travel market conditions and uses the resulting data to update its internal lodging reimbursement rates. The U.S. General Services Administration published the most recent reimbursement schedule on October 1, 2004. The federal schedule specifies rates for many cities, with seasonal distinctions in some cases. The schedule also includes a standard rate of \$60 for all other locations.

ADOA seeks to align Arizona's out-of-state lodging rates with federal guidelines. This issue has become a largely administrative concern for the department. Many hotels set a government rate using the most recent federal schedule and charge that daily rate to all government employees, even state employees. In these situations, state employees often request waivers from the ADOA General Accounting Office (GAO) to reimburse their additional costs. Since federal rates have become the de-facto government rates at many of these locations, GAO grants such waivers. For this reason, ADOA does not anticipate any significant annual fiscal impact from formally adopting the federal rates. The department's claim is that the agencies of the state have already absorbed such costs.

Although they are not mandated to do so, the state's public universities also use ADOA lodging reimbursement rates. The three universities report that the lodging rate change would increase yearly travel expenditures between \$168,000 and \$198,000 from all state appropriated funds, as well as by approximately \$1.2 million from all non-appropriated funds.

ADOA has identified the top 20 out-of-state markets where Arizona state employees travel most often on official business. Current rates in these locations range from \$55 to \$159. ADOA proposes increases of up to \$50, with an average of \$18, in 18 markets. Travelers to Las Vegas, Nevada would obtain the largest increases. At the same time, ADOA recommends decreases of up to \$(33), with an average of \$(21), at 2 locations. Travelers to San Francisco, California would experience the largest decreases. Overall, ADOA requests new rates ranging from \$60 to \$153 in these 20 markets.

Among all other out-of-state markets, present rates range from \$55 to \$215. ADOA suggests increases of up to \$126, with an average of \$21, in 666 geographic/seasonal markets. Travelers to Aspen, Colorado would receive the largest increases. The department also recommends decreases of up to \$(73), with an average of \$(16), in 158 geographic/seasonal markets. Travelers to Boston, Massachusetts would be among those seeing the largest decreases. Overall, the proposed out-of-state rates range from \$60 to \$249.

Within the Arizona market, ADOA believes it has a better understanding of travel cost conditions than that reflected by the federal travel survey. Therefore, the department recommends certain lower rates for in-state travel.

ADOA currently defines 8 markets for travel in Arizona. Existing in-state lodging rates range from \$55 to \$107. The department suggests increases of up to \$28, with an average of \$12, in 4 of those markets. Travelers coming to Maricopa County would receive the largest increases. Meanwhile, ADOA seeks decreases of up to \$(38), with an average of \$(15), in 4 markets. Travelers to Apache County would see the largest decreases. Overall, the proposed in-state rates range from \$60 to \$107.

(Continued)

ADOA proposes raising the standard reimbursement rate for all non-specified in-state and out-of-state markets from \$55 to \$60, representing a 9.1% increase. The department has also adjusted the seasonal timeframes of several locations to match federal changes and to better reflect current travel market conditions. ADOA asks that the increased lodging reimbursement rates go into effect immediately upon Committee approval.

When state employees receive prior authorization to attend a conference on official state business, maximum lodging rates do not apply. Employees may obtain reimbursement for their stay at the conference hotel regardless of the daily charge.

RS:SC:ss

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DATE: November 4, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: State Compensation Fund – Consider Approval of Calendar Year 2005 and 2006 Budgets

**Request**

Pursuant to A.R.S. § 23-981E, the State Compensation Fund (SCF) budgets for Calendar Year (CY) 2005 and CY 2006 are submitted for approval by the Joint Legislative Budget Committee. Unlike state agencies, the State Compensation Fund is budgeted on a calendar year basis rather than a fiscal year basis.

As detailed in *Attachment 1*, the SCF requests a budget of \$89,540,000 for CY 2005. This includes an operating budget of \$51,500,000 and Special Line Items (SLI) that total \$38,040,000. The SLIs are largely driven by market forces.

The SCF requests a budget of \$93,565,000 for CY 2006. This includes an operating budget of \$53,200,000 and SLIs that total \$40,365,000. The request represents a net increase of 4.5% above the CY 2005 recommended budget.

The requested amounts do not include any dividend or claims paid by the SCF. No request for Capital Outlay has been made.

**Recommendation**

The committee has at least 3 options in reviewing the requested budget:

1. Approve the budget as requested.
2. Approve the budget as requested, but adjust the salary increase to be in line with statewide employee salary increases approved by the Legislature for FY 2005.

3. Take no action. SCF does not believe that the Committee's action limits their budget. The Committee never approved a FY 2004 budget. In FY 2001 to FY 2003, SCF's expenditures exceeded the approved level of spending.

### Analysis

The SCF has requested an operating budget of \$89,540,000 in CY 2005 and \$93,565,000 in CY 2006. This represents an increase of \$14,455,000 or 19.3%, above CY 2004 expenditures for CY 2005 and \$18,480,000 in CY 2006 (see *Attachment 1*). Of the requested amount, \$11,255,000 in CY 2005 and \$13,580,000 in CY 2006 is for Special Line Item increases in claim adjustment services, rating bureau fees, premium taxes, administrative fees and property taxes. These SLIs are driven by market forces and claim volume, giving SCF little control over these costs.

The request includes increased funding of \$3,200,000 in CY 2005 and \$4,900,000 in CY 2006 for the operating budget. This amount includes Personal Services and Employee Related Expenditures increases equal to an average salary increase of \$1,300 per employee. Most state employees received a \$1,000 increase for FY 2005. Traditionally, the Committee has aligned SCF salary increases with state employee pay.

The request also includes a 7% increase in CY 2005 and 13% in CY 2006 for other operating expenses, including travel, equipment and professional services. Claim volume is expected to increase by 6% in CY 2005 and by 11% in CY 2006 over CY 2004. Also, professional service expenses have increased due to a change to external management of fixed income investments. SCF reports a market share of about 50% of the statewide premium dollar and approximately 60-65% of all Arizona employers.

*Table 1* shows the historical changes in premium and investment income, and the number of policyholders and claims.

<b>Table 1</b>				
<b>STATE COMPENSATION FUND</b>				
<b>Growth in Premium Income, Investment Income, Policyholders and Claims Processed</b>				
	<b>Actual 2003</b>	<b>Estimated 2004</b>	<b>Estimated 2005</b>	<b>Estimated 2006</b>
<b>Premium Income</b> (in Millions)	\$341.0	\$353.0	\$360.0	\$370.0
Dollar Increase	65	12	7	10
Percentage Increase	23.5%	3.5%	2.0%	2.8%
<b>Investment Income</b> (in Millions)	\$160.1	\$182.0	\$129.0	\$130.0
Dollar Increase	32	22	(53)	1
Percentage Increase	24.9%	13.7%	-29.1%	0.8%
<b>Policyholders</b>	53,953	55,372	56,000	57,000
Dollar Increase	1,756	1,419	628	1,000
Percentage Increase	3.4%	2.6%	1.1%	1.8%
<b>Claims Processed</b>	49,268	53,270	56,500	59,000
Dollar Increase	3,934	4,002	3,231	2,500
Percentage Increase	8.7%	8.1%	6.1%	4.4%

There are some matters of concern regarding the SCF budget process. SCF expenditures in CY 2001, CY 2002 and CY 2003 exceeded amounts approved by the Committee. In CY 2003, SCF

exceeded the approved operating expenditures by \$3.9 million, or 9% and the Special Line Item expenditures by \$5.6 million, or 24%. Some of the components of the SCF budget, such as number of policy holders, claims and management fees, are workload and market driven, and as a result may be difficult to predict. These are the Special Line Items listed in *Attachment 1*. However, the administrative component of the SCF budget has also been increased above the amount approved by the Committee, primarily for salary increases.

Further, at the December 20, 2002 JLBC meeting, the Committee only approved the CY 2003 budget. The SCF did not submit a CY 2004 budget the following year and no budget for CY 2004 was ever approved. Nevertheless, in CY 2004, SCF spent \$75.1 million.

SCF's willingness to reject the Committee's decision has probably been strengthened by the Maricopa Superior Court ruling of April 13, 2004 that "the monies and assets held by the State Compensation Fund are not public funds." This ruling stemmed from a dispute over whether the Legislature could transfer monies from the SCF to the General Fund. The ruling found that "the proposed transfer from the State Compensation Fund to the State General Fund . . . would violate the Arizona Constitution."

Finally, we also note that SCF has announced its intention to participate in the Knowledge Economy Capital Fund. This group is intended to address the lack of venture capital in the state. SCF will contribute up to \$25 million of the planned \$100 million to provide venture capital to emerging companies. This will be an investment asset for SCF, and there is a high level of associated risk.

RS/EJ:ck

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DATE: November 5, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Martin Lorenzo III, Assistant Fiscal Analyst

SUBJECT: Department of Public Safety – Quarterly Review of the Arizona Public Safety  
Communication Advisory Commission

**Request**

Pursuant to Laws 2004, Chapter 281 the Department of Public Safety (DPS) has submitted for review their FY 2005 1<sup>st</sup> quarter expenditures and design progress for the statewide interoperability design project.

**Recommendation**

The JLBC staff recommends that the Committee give a favorable review of the request. First quarter expenditures totaled \$249 out of \$5,000,000 in available funding. An Executive Director and 1 staff position have been hired for the Public Safety Communication Advisory Commission (PSCC.)

**Analysis**

Background

Laws 2004, Chapter 275 appropriated \$5 million to DPS for design costs of a statewide radio interoperability communication system. Radio interoperability allows public safety personnel from one agency to communicate, via mobile radio, with personnel from other agencies. An interoperable system enhances the ability of various public safety agencies to coordinate their actions in the event of a large-scale emergency as well as daily emergencies. Construction costs of a statewide radio interoperability communication system are estimated to be as high as \$300 million.

First Quarter Expenditures

In the first quarter of FY 2005, DPS and PSCC report expenditures totaling \$249. This amount consisted of advertising costs for the Executive Director and Administrative Services Officer positions. The following table shows the expenditure plan submitted to the Committee at its June 2004 meeting.

(Continued)

<b>Table 1</b>	
<b>FY 2005 Statewide Interoperability Design Expenditure Plan</b>	
	<b>\$5 Million</b>
	<b><u>Appropriation</u></b> <sup>1/</sup>
FTE Positions	9.0
Personal Services	\$ 382,800
Employee Related Expenditures	104,200
Professional and Outside Services	4,040,500
Travel – In	20,700
Travel – Out	15,900
Other Operating Expenditures	338,700
Equipment	97,200
<b>Total Operating Expenditures</b>	<b>\$ 5,000,000</b>
<sup>1/</sup> The additional \$3 million appropriated by Chapter 275 is non-lapsing and is included in the Professional and Outside Services line.	

#### Current Updates

On October 1, 2004, DPS named Curt Knight as the Executive Director of the PSCC, concluding the selection process that began in August. An Administrative Services Officer was hired shortly thereafter. Currently, PSCC is working on recruiting an Executive Assistant as well as advertising for qualifying Telecommunications Engineers. In total the PSCC would hire 9 FTE Positions. Office space for the support office has been leased and telephone services and hardware have been ordered.

In accordance with Laws 2004, Chapter 275, the Executive Director has contacted the Government Information and Technology Agency confirming the establishment of the Commission as well as extending an invitation to the first Commission meeting that was held on October 26, 2004.

These updates will be reflected in review of the second quarter expenditures.

RS/ML:jb

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DATE: October 29, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Bob Hull, Principal Research/Fiscal Analyst

SUBJECT: Department of Revenue – Report on Credit Card Payments

**Request**

The Department of Revenue (DOR) is reporting to the Committee on their plan to begin accepting credit card payment for taxes.

**Recommendation**

This item is for information only and no Committee action is required. Under this program, DOR would receive payment of the full amount of tax, and there would be no cost to the General Fund. The taxpayer would pay the full cost of the convenience fee, which DOR estimates at from 2.48% to 5% of the tax charged to the credit card. DOR could not estimate when they would begin accepting credit cards to make tax payments. They have given higher priority to other Business Re-Engineering/Integrated Tax System (BRITS) problems, issues and processes before completing the BRITS credit card process.

DOR could not estimate the annual dollar amount of convenience fees that would be paid by taxpayers. The amount would depend on the dollar amount of taxes paid by credit card over the Internet or telephone as opposed to the total amount of taxes paid, and may vary by tax type (transaction privilege, withholding, corporate income, and individual income taxes).

**Analysis**

A.R.S. § 35-142 requires that any credit card fees for taxes paid to DOR be paid by taxpayers in addition to the full amount of the taxes owed. DOR reported to the Committee on November 6, 2003 that they plan to begin accepting credit card payments as part of their BRITS project. The Committee asked the department to report back to the Committee once the fees have been established and they can estimate the annual dollar cost to taxpayers of the convenience fee.

(Continued)



Under this program, taxpayers who use the department's Internet site or telephone to file their taxes could use a credit card to pay the tax. Taxpayers would pay the full amount of the tax owed, plus a convenience fee to a third party credit card vendor. So far, DOR has discussed and worked on accepting credit card payments for accounts receivable and regular payments for transaction privilege and withholding taxes. The transaction privilege tax was converted to BRITS in January 2004 and withholding tax was converted in October 2004. DOR envisions eventually including credit card payments as an option for corporate income tax and individual income tax, and expects to consider whether to include quarterly credit card payments when these taxes are implemented in BRITS. The projected BRITS conversion dates are July 2005 for corporate income tax and September 2006 for individual income tax. DOR has not had discussions of whether to allow credit card payments of audited amounts due, including interest and penalties.

DOR has 3 credit card vendors that will participate with the department in the collection of taxes with rates that will vary from 2.48% to 5% as shown in the following table. Two of the credit card vendors will offer flat rates of 2.49% and 2.5%. The third will offer rates varying from 2.48% to 5% depending on the amount charged. When the credit card option is implemented on DOR's website, taxpayers will see all vendors and their applicable transaction fees. They will be able to select one of the participating vendors and go to their Web site to pay the taxes plus convenience fee. The vendor will remit the tax to DOR and keep the convenience fee. The Government Information Technology Agency reports that there would be no IBM portal fee, since DOR's tax payment internet site is part of the BRITS project and was developed independent of the IBM portal. DOR would receive payment of the full amount of tax, and there would be no cost to the General Fund.

<b>DOR's Credit Card Program</b>	
<b><u>Credit Card Vendor</u></b>	<b><u>Convenience Fee</u></b>
Official Payments	2.5%
Link 2 Gov	2.49%
Y2 Payments	Approximately 2.48% to 5% <sup>1/</sup>
<sup>1/</sup> The rate would depend on the amount charged.	

DOR has not yet implemented the use of credit cards to make tax payments. DOR reports that their Web site is ready to accept credit cards, but the work that will allow this information to be transferred to BRITS and posted to the taxpayer's account is not done. The department has given higher priority to other BRITS problems, issues and processes before completing the BRITS credit card process. DOR does not have an estimate of when they will begin accepting credit card payments for transaction privilege and/or withholding taxes.

DOR reports that 28 states allow credit card payment of taxes, including 21 states where taxpayers pay the convenience fee and 7 states where the state pays the convenience fee. The department reports that they have not researched, or checked with other states, to try to estimate the annual dollar cost to taxpayers of the convenience fee. This amount would depend on the dollar amount of taxes paid by credit card over the Internet or telephone as opposed to the total amount of taxes paid, and may vary by tax type (transaction privilege, withholding, corporate income, and individual income taxes).

RS/BH:jb

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DATE: November 9, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona Sports and Tourism Authority – Report on Activities

**Request**

Pursuant to A.R.S. § 5-814, the Arizona Sports and Tourism Authority (AZSTA) is required to annually appear before the Joint Legislative Budget Committee at the request of the Chairman to report on its activities and financial performance during the previous year.

**Recommendation**

This item is for information only and no Committee action is required. In FY 2005, AZSTA projects revenues of \$24.7 million and expenses of \$23.0 million. AZSTA and the City of Glendale have recently reached an agreement on the financing for stadium related infrastructure.

**Analysis**

AZSTA is charged with overseeing the design and construction of a new multipurpose football stadium. After the stadium is built, it will be owned and operated by AZSTA. In addition, the agency also distributes monies for the promotion of tourism in Maricopa County, Cactus League baseball spring training, and youth and amateur sports.

AZSTA currently estimates that the stadium will cost \$370.6 million to construct, an increase over previous estimates of \$355 million, with an additional \$61 million for support infrastructure (parking, roads, utilities, etc.). The stadium is scheduled for completion by August 2006.

In past months, there has been some concern over the financing and other infrastructure (public plaza, roads, sewers and waterlines). Under the original agreement, the City of Glendale was to pay for site preparation by issuing bonds. The city and AZSTA have now agreed to an alternative financing of the infrastructure where AZSTA will issue at least \$32 million in bonds. These bonds will be repaid over 30 years by all the revenues that the city would have collected from parking, taxes and surcharges associated with the stadium. After the repayment period, those revenues will be divided between the city and

AZSTA. The city will still be responsible for improvements to surrounding streets and neighborhoods. These improvements would be funded through the city's Capital Improvement Program or by the Arizona Department of Transportation. AZSTA agrees to cover any costs over the \$29 million the city budgeted for the project. This plan was accepted by the city on September 28 and by AZSTA on October 7.

AZSTA's operating revenue comes from a hotel bed tax, a car rental surcharge, NFL income taxes, and the recapture of sales taxes generated at Sun Devil Stadium. In FY 2005, total revenue is projected to be \$24.7 million. AZSTA's expenses include debt service payments, a Tourism Fund distribution, Cactus League payments, youth and amateur sports, and the agency's operating costs. In FY 2005, total expenses are projected to be \$20.2 million. The Tourism Fund distribution began in FY 2002 at \$4 million and is statutorily required to increase by 5% each year thereafter. The Cactus League payments include bond debt service for construction of a spring training baseball stadium in Surprise.

The following table provides an accounting of AZSTA's revenues and expenditures since FY 2003.

	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
	<b><u>Actual</u></b>	<b><u>Actual</u></b>	<b><u>Budget</u></b>
<b>Revenues</b>			
Hotel Bed Tax	\$10,247,098	\$10,835,385	\$11,318,944
Car Rental Surcharge	7,699,364	7,823,825	8,084,332
NFL Income Tax	3,784,320	4,087,066	4,414,031
Sun Devil Stadium Sales Tax Recapture	959,610	741,649	871,499
Other Operating Revenue	<u>6,500</u>	<u>150</u>	<u>0</u>
<b>Total Revenue</b>	<b>\$21,771,281</b>	<b>\$23,488,074</b>	<b>\$24,688,806</b>
<b>Expenses</b>			
Operating Expenses	2,172,343	1,427,868	2,818,712
Bond Debt Service	4,643,294	11,143,906	11,143,906
Wells Fargo/Bank One Stadium Loan	5,000,000	0	0
Tourism Fund	2,017,500	4,428,375	4,649,794
General Fund <sup>1/</sup>	2,200,000	0	0
Cactus League	3,000,000	3,000,000	3,000,000
Youth and Amateur Sports	1,108,333	1,208,333	1,308,333
Youth and Amateur Sports, Reserve	<u>1,000,000</u>	<u>25,000</u>	<u>91,666</u>
<b>Total Expenses</b>	<b>\$21,141,470</b>	<b>\$21,233,482</b>	<b>\$23,012,411</b>
<b>Non-Operating Revenue/(Expense)</b>			
Interest Income	358,800	7,381	22,939
Interest Expense	(115,225)	0	0
<b>Net Revenues (Revenue-Expenses)</b>	<b>1,798,996</b>	<b>2,261,973</b>	<b>1,699,333</b>
<sup>1/</sup> In FY 2003, the Legislature suspended the statute that would have transferred \$4.2 million to the Tourism Fund, and instead transferred \$2.0 million to the Tourism Fund and \$2.2 million to the General Fund.			

As indicated by the table, AZSTA's revenues have been sufficient to meet its expenses in recent years, despite the economic downturn. In the long run, AZSTA believes that its revenues will continue to exceed its costs. At the end of FY 2004 AZSTA reported a total unrestricted surplus of \$32.4 million. Estimates previous to the agreement to issue bonds for infrastructure put the FY 2011 debt service costs at \$17.1 million, an increase from \$11.1 million in FY 2005. This represents a 7.5% average annual increase in debt service payments over this period. Since AZSTA's current revenues of \$24.7 million already exceed its future debt service costs and its revenues are expected to increase in future years, especially once the stadium opens, it appears likely that AZSTA will be able to pay future debt service.

According to A.R.S. § 5-835, AZSTA's funding priority is as follows:

1. Multipurpose Facility Bonds
2. Tourism Fund Transfer for Promotion of Tourism in Maricopa County
3. Cactus League Baseball
4. Youth and Amateur Sports
5. AZSTA Operating Account
6. Youth and Amateur Sports Reserve Account

If, in the worst case scenario, the tourism industry declines sometime in the future and AZSTA's revenues are not sufficient to cover all of its expenses, the available revenues would first go toward the stadium bonds, then to the Tourism Fund, and so forth, according to the funding priority. To at least meet its debt service obligations and avoid defaulting on its bonds, AZSTA would need enough revenue to cover priorities 1 through 3. A severe tourism recession does increase the probability that youth and amateur sports, along with AZSTA operating account, could go underfunded.

RS/EJ:ck

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DATE: November 5, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Assistant Director

SUBJECT: Governor's Office of Strategic Planning and Budgeting - Report on Federal Revenue  
Maximization Initiative

**Request**

Pursuant to a General Appropriation Act footnote, the Governor's Office of Strategic Planning and Budgeting (OSPB) has submitted its quarterly report on the status of a Federal Revenue Maximization Initiative.

**Recommendation**

This item is for information only and no Committee action is required. JLBC Staff notes that OSPB's report indicates that none of the savings for completed projects are allocated to the \$25 million of savings incorporated into the overall budget.

**Analysis**

Laws 2004, Chapter 275, Section 80 states the following:

"The Office of Strategic Planning and Budgeting shall report to the Joint Legislative Budget Committee by July 1, 2004 and the beginning of each subsequent calendar quarter in the fiscal year on the status of the Federal Revenue Maximization Initiative. The report, at a minimum, shall include an update on contracts awarded as a result of the "RevMax" request for proposals, a summary of projects and the potential savings from each project. Any reported savings shall distinguish between potential reductions in current funding levels and foregone future spending increases."

This provision was associated with an estimated \$25 million of savings incorporated into the overall FY 2005 budget. These savings were not allocated to specific agency budgets; rather they were assumed as part of the overall "balance sheet" and were intended to reduce current funding levels.

To meet the budgetary target, agency appropriations would need to be reduced during the year or budgeted revertments would have to increase. Revertments are unspent appropriations that are returned to its source (in this case, the General Fund).

After reviewing OSPB's first report at its August meeting, the Committee asked OSPB to provide a list of projects initiated or referred to agencies for final cost-benefit analysis along with each project's contractor, relevant agencies, and projected savings.

The project is administered by a Governance Board appointed by the Governor. The attached report consists of spreadsheets detailing projects at the Arizona Health Care Cost Containment System (AHCCCS), the Department of Economic Security (DES), the Department of Health Services (DHS), and other agencies. We have attached the updated report provided at the Governance Board's October 27 meeting in lieu of providing the report submitted by OSPB, which was current only through the Board's September 28 meeting.

To date, it appears that there are 3 projects completed, all designed to increase federal Title XIX Medicaid reimbursement:

- Immunization Registry (AHCCCS/DHS): \$135,000 annually
- ASH Inpatient Hospitalization (AHCCCS/DHS): unknown
- Juvenile Justice (Juvenile Corrections/AHCCCS): \$250,000 annually

In another completed project, concerning the *Padilla vs. Rodgers* case, the courts have also ruled that the federal government must pay \$3 million to the state for mandated court-ordered dialysis services provided to approximately 100 undocumented individuals. At this time, however, the federal government has not yet paid the state.

In addition to these projects, the summary lists 6 ongoing and 4 potential AHCCCS projects, 1 ongoing DHS project, 2 ongoing and 3 potential DES projects, and 2 other ongoing projects.

At its October 27 meeting, the Governance Board received updates from participating state agencies, but did not direct agencies to proceed with any new task orders.

The JLBC Staff would also note that many of the projects have notes indicating that savings would be used to offset supplemental appropriations or "reinvested in the Child Welfare System." Most of the actual or potential savings are in agencies with potential supplementals due to higher than expected caseloads. There are other projects, such as some in DES, where savings would represent reinvestments in programs -- these statements appear contrary to the intent of the FY 2005 budget that these revenue maximization initiatives generate \$25 million in savings in the overall "balance sheet."

RS/SSH:jb  
Attachment

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DATE: November 5, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Kim Hohman, Senior Fiscal Analyst

SUBJECT: Attorney General - Department of Law - Report on New Staffing of Child Protective Services Attorneys

**Request**

The FY 2005 General Appropriation Act appropriated \$4 million from the General Fund to the Division of Children, Youth and Families (DCYF) within the Department of Economic Security to fund 65 additional Attorney General legal staff positions working in DCYF. These positions are funded through the DCYF budget, but are still considered employees of the Office of the Attorney General (AG). The Chairman has requested that the Attorney General report on a quarterly basis, beginning October 15, 2004, on the status of hiring the new AG staff.

**Recommendation**

This report is for information only and no Committee action is required. The JLBC Staff does recommend, however, that the Committee request that future reports include information on the status of hiring new Attorney General positions funded from Federal Funds. The JLBC Staff estimates that the FY 2005 General Fund increase will result in an additional 28 AG legal staff.

The highlights of the report are:

- Of the 65 AG positions appropriated in the General Appropriation Act, 24 have been filled.
- At the end of the 1<sup>st</sup> Quarter of FY 2005, there were 10,434 children awaiting placement, up from 9,771 children a year ago. Of the 10,434, 2,935 children had been awaiting placement for longer than 24 months (compared to 2,618 a year ago).
- Since the 2<sup>nd</sup> Special Session in the fall of 2003, there have been a total of 119 jury trial requests and 16 actual jury trials. Of the amounts, 39 requests and 4 trials occurred in the 1<sup>st</sup> Quarter of FY 2005.

## Analysis

The FY 2005 General Appropriation Act increased the DCYF budget by \$4 million from the General Fund to provide 65 additional AG legal staff positions within the division. The increased appropriation provided funding for approximately 30 additional attorneys, 15 legal assistants, 15 legal secretaries, and 5 clerk typists. In addition, the General Fund appropriation is expected to draw down additional federal monies, which will fund approximately 28 attorney and support staff positions.

The increase in AG legal services funding within DCYF was in part due to changes made in the 2<sup>nd</sup> Special Session in the fall of 2003. Laws 2003, 2<sup>nd</sup> Special Session, Chapter 6 allowed individuals involved in parental rights termination cases to request jury trials. This type of legal proceeding requires more attorney hours, and therefore additional Attorney General resources. The additional funding appropriated in FY 2005 was provided to the AG to address an increase in the number of jury trial requests, as well as an increase in the number of dependency cases handled by the AG's Office. During the 2004 legislative session, the AG's Office indicated that there was a critical need to fill the additional staff positions. As a result, the Chairman has requested that the Attorney General report on the status of hiring new AG staff and the processing of dependency cases. Specifically, the Chairman requested that the reports include the following information: 1) the net number of Attorney General Child Protective Services positions filled at the end of each quarter; 2) the number of children (and cases) awaiting placement at the end of each quarter; and 3) the number of jury trials handled by the AG at the end of each quarter.

The AG has made some progress hiring new staff. As of October 1, the AG has on net filled 24 of the 65 positions appropriated in the FY 2005 General Appropriation Act. Of the 24 positions, 12 are attorneys, 2 are legal assistants, 3 are legal secretaries, and 7 are clerk typists.

The AG has also reported on the total number of children awaiting placement (children in the foster care system) and has displayed data for each month of the 1<sup>st</sup> Quarter of FY 2005. As of September 30, there were 10,434 children (5,870 cases) awaiting placement. Of this amount, 2,935 children (or 28%) had been awaiting placement for longer than 24 months. As a point of comparison, on June 30, 2004 there were 9,771 children awaiting placement, with 2,618 (or 27%) of these children waiting longer than 24 months for placement.

The AG reports a total of 39 jury trial requests during the 1<sup>st</sup> Quarter of FY 2005, or an average of 13 requests per month. In the 3<sup>rd</sup> and 4<sup>th</sup> Quarters of FY 2004 the number of jury trial requests also averaged 13 per month, for a total of 80 jury trial requests for that 6-month period. Of the 39 jury trial requests in the 1<sup>st</sup> Quarter of FY 2005, 4 resulted in trials actually being held. The information provided by the AG on jury trials is summarized in the following table:

<b>Jury Trials Parental Termination Cases</b>			
	<u>Jury Trial Requests</u>	<u>Jury Trials Held</u>	<u>Jury Trials Held (as % of Requests)</u>
<u>FY 2004 (3<sup>rd</sup> &amp; 4<sup>th</sup> Quarters)</u>			
Jan. 2004 – June 2004	80	12	15%
<u>FY 2005 (1<sup>st</sup> Quarter)</u>			
July 2004 – Sept. 2004	39	4	10%
<b>Total</b>	<b>119</b>	<b>16</b>	<b>13%</b>

The Attorney General will continue to submit these reports through FY 2005.



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DATE: November 9, 2004

TO: Senator Bob Burns, Chairman  
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Arizona State Retirement System – Report on Contribution Rates

**Request**

The JLBC Subcommittee on Retirement Rates met October 21, 2004 to discuss the projected increase in the Arizona State Retirement System (ASRS) contribution rate.

**Recommendation**

This item is for information only and no Committee action is required. ASRS projects an increase in the contribution rate from 5.2% to 7.75% beginning in FY 2006. This increase produces an estimated FY 2006 cost of \$22 million to state General Fund agencies and \$51 million each to public school districts and teachers.

**Analysis**

The JLBC Subcommittee on Retirement Rates met on October 21, 2004 to discuss the projected increase in the ASRS contribution rate. ASRS projects an increase from 5.2% to 7.75%. Attachment 1 is the JLBC Staff presentation for the subcommittee and Attachment 2 is an ASRS document.

ASRS reported that investment losses in FY 2002 and FY 2003, as well as changes in the actuarial assumptions that determine the rate caused the majority of the rate increase. According to ASRS, nearly two-thirds of the increase (162 of the 255 basis points) is a result of losses in FY 2002 and FY 2003. However, this figure may be revised as previous ASRS estimates appear to included factors other than investment returns. The replacement of outdated actuarial tables accounts for a 65 basis point increase. The outdated tables were projected from a 1984 mortality table and did not accurately forecast the baby boomer mortality rates.

The delay in implementing the contribution rate has also driven up the projected rate. There are 2 reasons for the delay. First, the rate is calculated annually, but only implemented biennially. Therefore, in the second year of a biennium the retirement rate is not set at the level required to cover the costs of the system. Second, the rate is calculated each November based on data ending the previous June. This rate is not implemented until the following July, making the data a year old when the rate is implemented. Thus, in the first year of the biennium, the rate is already 1 year old, and in the second year, it is 2 years old.

The following chart shows the ASRS breakdown of the increase:

<b>ASRS Contribution Rate Factors FY 2004 to FY 2006</b>	
Old Rate (Implemented FY 2004)	5.20%
Investment Losses and Gains	1.54%
New Mortality Tables (Actuarial Assumptions)	0.65%
Delay in adopting new contribution rates	0.48%
Extension of rural health insurance subsidy	0.03%
Change in the Funding Period	-0.06%
Adjustment to PBI Reserve	-0.02%
Change in the Service Purchase Cost	-0.17%
Decrease in interest accrual rate for member accounts (from 8% to 4%)	<u>-0.15%</u>
<b>Total Increase</b>	<b>2.50%</b>
<b>New Rate</b>	<b>7.50%</b>

ASRS is currently funded at 87.5% of liabilities. By raising the rate, the retirement system will be able to cover the normal cost of providing benefits and begin to decrease its unfunded liability. However, ASRS projects that future rate increases will be necessary since gains and losses are recognized over a 10-year period. Hence, a component of the losses in FY 2002 will be part of the rate until FY 2012. This helps to smooth out the fluctuations in the contribution rate. Based on current assumptions, ASRS expects the rate to rise above 10% within 6 years.

At the JLBC Subcommittee meeting, options were discussed to reduce the effects of the rate increase and prevent similar situations in the future. The increase results in a take-home pay decrease of \$25.50 for every \$1,000 of pre-tax pay for state employees, teachers and other participants in ASRS. Two options were presented to limit the impact on the employees. The first option was a salary increase. This would cost state General Fund agencies about \$26 million to offset the contribution as well as other Employee Related Expenses. Instead of providing a salary increase, the employer could contribute more than the current 50% to cover the employee's portion of the increase. Employers in the Public Safety Personnel Retirement System (PSPRS) use this method to reduce employee costs. This alternative would cost General Fund agencies an additional \$22 million. The cost of either alternative is in addition to a \$22 million increase in employer contributions. The total cost of the increase if the burden is shifted from the employee to the employer is between \$44 million and \$48 million to General Fund agencies. In a memo announcing the projected rate increase the Arizona Department of Administration indicated that the Governor will seek funding to maintain employee take home pay.

Options for preventing similar situations included raising the floor on contribution levels. Currently, contribution levels cannot fall below 2%. In times of high investment returns, setting the contribution rate higher than is needed creates a surplus that could offset future losses. This assumes no benefit increases. There was also discussion of changing some of the assumptions, including the 8% rate of return on investments. Currently, the actuary performs an experience study every 5 years to assure that assumptions are realistic.

During and after the JLBC Subcommittee meeting several further questions were raised. These questions have been submitted to ASRS, but at this time the JLBC Staff has not received a reply. These questions include a revised basis point impact of investment losses and gains for each year contributing to the rate increase, a revised schedule of all factors affecting the rate increase, and projections of future rates based on various investment scenarios.